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FM AMEMBASSY ALGIERS
TO RUEHC/SECSTATE WASHDC 4760
INFO RUEHFR/AMEMBASSY PARIS 2384
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RUEHNM/AMEMBASSY NIAMEY 1332
RUEHBP/AMEMBASSY BAMAKO 0280
RUEHCL/AMCONSUL CASABLANCA 3105
RUCPDO/DEPT OF COMMERCE WASHDC

UNCLAS SECTION 01 OF 02 ALGIERS 001581

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SUBJECT: (MICRO)SOFT DIPLOMACY, VERSION 1.0

¶1. (U) SUMMARY: Microsoft CEO Steve Ballmer paid a brief visit to Algeria in a trip touted as an opportunity for Microsoft to help the GOA expand Algeria's information and communications technology (ICT) sector and enhance its education system. Ballmer said he was inspired by the GOA's commitment to technology development and by the potential for market growth in Algeria. ICT insiders suggested that the CEO visited Algeria in an effort to enhance Microsoft's government relations, and to signal that its recently reorganized business unit is serious about this market. Meanwhile, firms are optimistic about the ICT sector in Algeria, but are skeptical about whether Microsoft can effectively expand its software marketing here, or expect to make any progress combating piracy. END SUMMARY.

¶2. (U) In a whirlwind visit on October 3, Ballmer met with President Bouteflika and several ministers to discuss the development of the technology sector in Algeria, the use of IT start-up companies as a means to energize the Algerian economy, and access to computers in Algeria's schools. Ballmer later told a group of Microsoft partner firms that the greatest growth potential for the ICT industry lies in emerging markets like Algeria, where ICT structures can be expanded to tap into significant populations hungry for access to Web-based entertainment and educational services. (Note: 7.3 percent of the Algerian population has access to the Internet, compared to a 0.2 percent penetration rate in 2000, according to recent data compiled by the International Telecommunication Union. End note.) Ballmer said that he came to Algeria to evaluate his local team's recommendations for expansion, which he will consider in early 2008. He told the industry group that he was "inspired by the president's thoughtfulness toward the future," and that he saw potential growth across all economic sectors.

BUT STILL, WHY COME TO ALGERIA?

¶3. (SBU) Microsoft recently split its regional marketing division and created the Microsoft Algeria business unit. Because of the terrorist activity in Algeria in the 1990s, Microsoft established its North African headquarters in Morocco, which local IT representatives and former Microsoft employees say the GOA never forgave. Ballmer's visit to Algeria appeared timed to show corporate support for the new Algerian unit's government relations efforts, and an attempt to relieve past tensions between the GOA and Microsoft.

HOPE SPRINGS ETERNAL, BUT SO DO CLONES AND PIRATES

14. (SBU) Industry representatives told Econoff that they were optimistic about the near-term future of the ICT sector in Algeria. Abdelaziz Ben Aissa, the general manager of a certified Microsoft business solutions firm, said that the GOA seems focused on ICT issues and opportunities are expanding. Ben Aissa's firm provides support services for Northrop Grumman information systems. He works extensively with the Algerian federal police, with whom he expects more contracts to support expanding communications and information systems. Djamal Hadjout, the information services director of an Algerian wholesaler representing a number of leading American computer periphery brands, said business is generally growing and that retailers are finding new customers among both Algerian corporate and individual consumers. He noted that American products continue to be associated with quality and prestige but are considered expensive.

15. (U) IT representatives were at the same time skeptical that Microsoft will be able to raise significantly its stake in the Algerian consumer software market or to combat piracy effectively because of the relatively high price of its products and the continued weakening of Algerians' buying power. They said that most personal computers sold to households are clones assembled in Algeria, and that most people buy pirated copies of operating systems like Windows and other software applications for as little as two dollars. Further, according to recent news reports, electronics represents the second-largest category of goods smuggled into Algeria (after cigarettes), and overall customs seizures of contraband rose significantly throughout 2007. Given Algeria's rising cost of living and high unemployment rate, the ICT representatives saw little hope that Microsoft will be able to counter these IPR challenges anytime soon. Ballmer was asked about this dilemma, but gave only a general response about his company's

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commitment to finding innovative solutions to specific markets and his confidence that the GOA will move in a positive direction regarding ICT use and development in Algeria.

16. (SBU) COMMENT: Ballmer's visit, along with the recent creation of Microsoft Algeria, likely went a long way to meeting Microsoft's government relations goals. Some in the business world interpreted President Bouteflika's overt hospitality to a corporate leader as a sign that the GOA is serious about its stated intent to build out Algeria's ICT sector, improve the country's education system through access to technology, and see that every Algerian family has a computer at home. Nonetheless, the challenges of contraband hardware and pirated software remain significant as the high cost of living continues to influence not only consumer decisions regarding brand preference and when to buy, but also the choice between licensed, cloned or pirated goods.

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